

NCHSR National Health Care Expenditures Study

Health Insurance for the Unemployed: Is Federal Legislation Needed?

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HEALTH INSURANCE FOR THE UNEMPLOYED: IS FEDERAL LEGISLATION NEEDED?

by Alan C. Monheit, Michael M. Hagan, Marc L. Berk, and Gail R. Wilensky

Prologue: With more than 10 percent of the work force unemployed last spring, Congress seemed prepared to enact, over the objections of the Reagan administration, a new federal entitlement program extending health insurance coverage to those individuals who had lost their jobs. Such legislation, backed by Democrats and Republicans alike, cleared the House of Representatives in August, providing \$4 billion for a state-administered program of health insurance for the unemployed. Since then, however, the House-passed bill and more modest proposals introduced in the Senate, have languished as a consequence of an improving economy and mounting concern over the massive budget deficits that loom into the indefinite future. But beyond these factors, another consideration emerged: legislators were uncertain about how best to address the issue. Contributing to their unease was a new study underwritten by the National Center for Health Services Research which showed that only 13 percent of the unemployed in 1982 were without health insurance because they were out of work. The study was based upon data taken from the National Medical Care Expenditure Survey, as updated by the 1982 population. The study shows that most of the unemployed retained health insurance coverage through protection by their former employers. The authors agreed that being without health insurance was a serious problem for part of the unemployed individuals. Thus, the study suggests that a federal program which focuses only on providing health insurance to the unemployed might not only displace private efforts to provide health insurance but also create serious equity issues as well. Alan C. Monheit is an economist at the National Center for Health Services Research (NCHSR); Michael M. Hagan is a sociologist at the NCHSR; Marc Berk is a sociologist at the NCHSR; and Gail Wilensky, an economist at the NCHSR, is now vice-president of Project Health.

The high unemployment rates of the past year have drawn national attention to the relationship between loss of employment and health insurance coverage. Attention has also focused on the possibility that the unemployed may reduce or postpone their use of medical care when confronted by illness, suffer a deterioration in their health status, or find themselves in serious financial jeopardy when seeking care. These perceptions have stimulated a debate within federal and state governments regarding the appropriate response of public policy to health insurance losses related to unemployment. At the heart of this discussion is the question of whether the unemployed can independently secure health insurance at a reasonable price, or whether loss of employment raises a significant barrier to such purchases, creating serious inequities in the distribution of health insurance coverage and requiring remedial action through government intervention.

During the spring of 1983, a number of legislative proposals were introduced in Congress to protect the unemployed from health insurance loss.¹ Initial legislation introduced by Senator Dole (S. 951) and Representative Waxman (H.R. 2552) proposed extension of health care benefits to the unemployed who are current or past recipients of unemployment compensation. Benefits would be based upon the characteristics of state Medicaid programs and financed through a combination of federal matching funds (determined by the state's unemployment rate) and premiums and cost-sharing provisions imposed by the states. In addition, employers would be required to implement an open season so that the unemployed could secure coverage through the policy of a working spouse. Failure to do so would jeopardize the tax deductions of employer contribution to health insurance. Other proposals by Representative Walgren (H.R. 1823) and Senator Reigle (S. 307) offered temporary coverage under the Medicare program for the involuntarily unemployed, but also encouraged the formulation of state reinsurance pools supported by employers, the unemployed, and federal contributions. Before adjournment in August 1983, the House voted to support a \$4 billion program of health insurance for the unemployed.² The provisions of this bill included extension of fixed amounts of federal funds to participating states for health services and the requirement that employers offer a thirty-day open enrollment period to current employees. In addition, employers would be required to offer continued health insurance coverage to former employees and to enable such workers to enroll in state health policies. A similar \$1.8 billion proposal,

se of the authors. No official endorsement by either the U.S. Department of Health and Human Services, or Project Health Care. The authors wish to thank Ase Sewall of Social and Scientific Information in this project.

approved by the Finance and Human Resources committees, was awaiting consideration by the full Senate.

In contrast to these congressional initiatives, testimony by David Stockman has urged that no additional federal outlays be provided to assist the unemployed unless new sources of tax revenues become available. Stockman has emphasized that existing federal funds from social service block grants be used by states to provide health insurance for the unemployed, that employers be required to enable unemployed workers to retain private health insurance at individual rates, and that workers covered under individual health insurance plans have the opportunity to switch to family coverage to include an unemployed spouse.³

Public policy which addresses the problem of health insurance loss by the unemployed must consider the likelihood of such a loss, its distribution across types of workers and households, and its implications for access to medical care. The purpose of this paper is to clarify these issues by examining the health insurance status of the unemployed, the manner in which their health insurance coverage is retained, and the level of medical care expenditures and utilization by the unemployed. To investigate the relationship between unemployment, health insurance, and medical care use, data from the National Medical Care Expenditure Survey (NMCES) are used to characterize the experience of the unemployed in 1977 and to estimate the loss of private health insurance by the unemployed in 1982. Results of the study suggest that a majority of the unemployed in 1977 were able to retain health insurance and that a relatively small proportion of unemployed workers—8 percent in 1977 and 13 percent in 1982—lost health insurance as a result of unemployment. In addition, our analysis reveals that a significant proportion of unemployed and employed workers lacked health insurance in 1977 and that unemployed workers did not experience a decline in medical care use compared to periods in which they were employed or relative to employed workers.

Data And Methods

The data in this study were obtained from the 1977 National Medical Care Expenditure Survey (NMCES), a survey of the health insurance coverage and medical care utilization and expenditures of 14,000 randomly selected households with characteristics representative of the civilian noninstitutionalized population. The survey was undertaken to provide data for a major research effort in the National Center for Health Services Research and was cosponsored by the National Center for Health Statistics.⁴

Respondents to the survey were asked about their health insurance coverage and expenditures for medical care services in 1977 during five

interviews conducted over an eighteen-month period from 1977 to early 1978. Respondents were also asked for information regarding their employment status and labor force attachment during 1977 and early 1978 through two employment supplements administered during the survey. These data, together with the longitudinal nature of the NMCES survey, provide a unique opportunity to examine the health insurance coverage and medical care use of individuals during periods of employment and unemployment, as well as the nature of coverage and use of medical care by particular segments of the unemployed population. This represents a distinct advantage over studies which do not have longitudinal data on employment and insurance status.⁵ Such methodologies are unable to consider how health insurance status changes over a spell of unemployment or between periods of employment and unemployment and the manner in which unemployed workers and their households adjust to such changes.

Estimates regarding employment status and insurance coverage required the application of sophisticated analytic strategies. Developing 1982 estimates from data collected in 1977 required the application of forecasting techniques which involved multivariate statistical procedures such as logistic regression. Those interested in a detailed discussion of the methodologies employed are referred to Alan Monheit.⁶

Unemployment And Health Insurance Status In 1977

Exhibit 1 shows the health insurance status of unemployed workers in 1977, both overall and according to factors particularly important in explaining the likelihood that health insurance will be retained or lost. As the exhibit reveals, the majority of unemployed workers in 1977—almost three-quarters—were able to retain health insurance throughout the year. The result was maintained when alternative definitions of unemployment were used (for example, all respondents who received unemployment compensation at any time during 1977) and suggests that loss of health insurance was not a serious problem for the majority of unemployed in 1977. The next largest group, 11 percent of unemployed workers, lacked health insurance throughout 1977, including during periods when they were employed. For this group, lack of health insurance is not a consequence of employment loss but is instead a characteristic of their general labor force experience. Such workers may have been uninsured all year for a variety of reasons: their previous employer may not have offered health insurance as a fringe benefit, their income and asset position over the year may have precluded both private purchases and enrollment in a public health insurance program, or they may have decided not to purchase health insurance when employed.

Our survey results further indicate that a relatively small proportion of

Exhibit 1
Unemployment And Health Care Coverage According To Selected Characteristics,
NMCES Household Data, United States, 1977

Characteristics	Unemployed persons (thousands)	Insured all year	Never insured	Lost private insurance	Other part-year coverage
		Percent of unemployed			
Total unemployed	6,502	73.8	11.1	8.0	7.1
Family income					
Poor or near poor	1,247	56.9	16.6	11.4	15.1
Low income	1,012	63.9	15.2	9.1	11.8
Middle income	2,528	75.4	11.0	8.7	4.9
High income	1,716	89.5	4.8	3.8	1.8
Household composition					
No other worker	1,824	69.3	13.9	8.5	8.3
Uninsured working spouse or other worker	2,644	61.0	16.3	13.1	9.6
Insured working spouse	2,034	94.5	1.8	1.0	2.7
		Mean value			
Household income		\$19,856	\$11,546	\$13,481	\$10,656
Weeks of unemployment					
Duration from last day worked to employment interview date		13.2	15.4	17.4	14.0
Total duration of unemployment		26.2	28.5	30.1	26.9

Source: National Center for Health Services Research.

the unemployed—8 percent or 520,273 workers—lost private health insurance as a direct result of employment loss during the third quarter of 1977. These individuals had private health insurance prior to the date of unemployment and were without such coverage for several months thereafter. This finding reflects the fact that most unemployed workers were able to retain some form of health insurance coverage throughout 1977, and that a small but significant proportion were never insured even when employed. Finally, the remaining 7.1 percent of unemployed workers with part-year coverage displayed a pattern of health insurance coverage consisting of either some public insurance during the year or private coverage that was unaffected by changes in employment status.

Comparing the unemployed with employed workers reveals a number of important although not surprising differences. The unemployed were more likely to experience a lapse in health insurance coverage during 1977 relative to employed workers. About 15 percent of the 6.5 million unemployed were covered for only part of the year compared to about 7 percent of the 84.5 million employed. However, the employed and unemployed were about equally likely to lack health insurance through-

out 1977, with 9 percent of the former uninsured compared to 11 percent of the latter. Of those lacking full-year coverage, 722,000 were unemployed while 7.6 million were employed. This finding suggests that public policy designed to provide health insurance for the unemployed will fail to address the problems confronting many employed workers who also lack coverage.

Unemployed workers who were insured throughout the year had average household incomes of almost \$20,000, compared to \$11,546 for unemployed workers who were never insured, \$13,481 for those who lost private coverage, and \$10,656 for the unemployed with other part-year coverage. Thus, unemployed workers who retained health insurance all year belonged to households who presumably could afford to pay for such coverage.

Longer spells of unemployment increase the likelihood that continuation provisions in previously held employment-related insurance will expire and that an unemployed worker will therefore experience a health insurance loss. Duration of unemployment was a month shorter for those who retained health insurance than for unemployed workers who lost private coverage.⁸

An examination of household composition revealed that almost 95 percent of unemployed workers residing with a privately insured working spouse retained health insurance throughout 1977. This finding suggests that many such workers were or became dependents in their spouse's health insurance.⁹ Further, 85.1 percent of unemployed workers in this class were from high- or middle-income households and therefore likely to be more capable of purchasing nonwork-related individual or family health insurance coverage.

Use Of Medical Services By The Unemployed

Efforts to extend health insurance coverage to the unemployed are based on the assumption that unemployment adversely affects expenditures on health care or the use of medical care services. In Exhibit 2, we present data on the use of services and total out-of-pocket expenditures by both employment status and insurance coverage. These data are used to determine if the unemployed either use fewer services than the employed or if, as a result of obtaining uncovered services, they experience high out-of-pocket costs.

Overall, we find little reason to conclude that unemployment results in comparatively less use of health care services. The use of physician services, prescription drugs, and hospitals by the unemployed is generally comparable to that of the employed. In fact, the unemployed actually appear to have a higher probability of at least one physician visit, more physician visits for those with at least one, and a higher probability

Exhibit 2
Use Of Health Services And Total Out-Of-Pocket Expenditures By Insurance Coverage and Employment Status, United States, 1977

Insurance/ employment status	Population (in thousands)	Percent with at least one physician visit	Mean physician visits for those with at least one	Percent with at least one prescription drug	Mean prescription drugs for those with at least one	Percent hospi- talized	Total out-of- pocket expendi- tures	Bed days
Insured all year	76,009	74.1%	5.1	58.4%	6.4	10.2%	\$151.03	3.6
Employed	71,309	73.7	5.1	58.1	6.4	10.2	150.22	3.6
Unemployed	4,700	79.2	5.7	63.8	6.9	10.3	163.41	4.6
Insured part of year	7,216	72.9	4.9	57.9	5.3	9.5	138.93	4.2
Employed	6,249	73.1	4.8	57.4	5.4	9.9	139.92	4.1
Unemployed	967	71.9	5.4	60.5	5.0	7.2	132.50	4.6
Never insured	8,306	53.9	4.5	42.5	5.3	4.2	135.95	3.5
Employed	7,589	53.2	4.4	41.9	5.4	4.0	135.19	3.4
Unemployed	717	61.8	5.4	49.7	5.2	5.9	155.65	4.2
Employed (total)	85,147	71.9	5.0	56.6	6.2	9.6	148.12	3.6
Unemployed (total)	6,384	76.1	5.6	61.7	6.4	9.4	157.86	4.5

Source: National Center for Health Services Research.

of using prescription drugs. These differences, while statistically significant at the .05 level, are small and may be attributable to the fact that the unemployed have somewhat poorer health status as measured by bed days. The unemployed experience about 4.5 days per year confined to bed compared to 3.6 bed days for the employed.

When insurance status is used as a control, the unemployed continue to show a slightly higher probability of using at least some physician services. Among those who were insured all year, the unemployed were more likely to have seen a physician, and among those who did see a physician, there were relatively more visits by the unemployed than the employed. Here again, the differences were small but statistically significant. There was also a small difference in the percent using prescription drugs, although no difference in the number of drugs among users was observed. Nor was there a difference in hospitalization rates.

Rates of health care use among the insured with part-year coverage were not associated with employment status for either drug, physician, or hospital use.¹⁰ Neither were there differences in use by employment status among the never-insured, except for the probability of a physician contact. About 62 percent of the uninsured unemployed saw a physician compared to about 53 percent of the never-insured employed.

Thus, it appears that unemployment in and of itself is not associated with major barriers to obtaining care. If anything, the unemployed appear to be using slightly more health care services than the employed. The data in Exhibit 2 also show that while employment status is not a major determinant of health care use, there is a very strong association between insurance coverage and utilization. The uninsured use much fewer services

out 1977, with 9 percent of the former uninsured compared to 11 percent of the latter. Of those lacking full-year coverage, 722,000 were unemployed while 7.6 million were employed. This finding suggests that public policy designed to provide health insurance for the unemployed will fail to address the problems confronting many employed workers who also lack coverage.

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than the insured and the observed differences are large and consistent. The employed never-insured have lower probabilities of physician, drug, and hospital use than do the employed who are insured all or part of the year. Similarly, the uninsured unemployed are less likely to see a physician, use a prescription drug, or to be hospitalized than are the unemployed who are covered by insurance. Finally, it is worth noting that employed people who lack insurance are less likely to use services than are the unemployed who are covered. Thus, with respect to utilization, lack of insurance appears to be a barrier to care *regardless* of employment status.

When out-of-pocket expenditures are examined, we again fail to see a pattern suggesting that the unemployed are at increased risk. Overall, workers employed throughout 1977 spent an average of \$148 per year out-of-pocket for their health care compared to \$157 for the unemployed. This nine dollar difference is not statistically significant. Nor are differences in out-of-pocket expenditures between the employed and unemployed significant for any of the insurance categories examined.

We also examined these same issues using a quasi-experimental approach which compared the use of services and total charges incurred by the unemployed during their actual period of unemployment with their experience during the time they were employed. Overall, the unemployed use comparable levels of service during their unemployment period as they do during the time they are employed. In fact, on an annualized basis, they report slightly higher levels of hospital stays, physician visits, and prescription drugs, although the differences are small. Differences in total charges were generally small except for the never-insured, where annualized charges during the employment periods were about \$227 compared to about \$119 while when unemployed.

Our examination clearly indicates that insurance coverage is a much greater barrier to care than is unemployment. The unemployed uninsured use much fewer health services than do the unemployed who retain coverage. However, the health care use levels of the unemployed uninsured appear to be no different than those of the *employed* uninsured. Since over 55 percent of those who lacked insurance in 1977 were employed throughout the year, any attempt to define a national insurance problem solely as a function of unemployment will fail to consider the barriers to medical care experienced by employed and unemployed workers who are never insured.

Unemployment And Health Insurance Loss: Estimates For 1982

Estimates of the health insurance status of unemployed workers presented above have been derived from information on coverage and employment status during 1977, a year of transition from relatively high unemployment in 1975 to relatively low unemployment in 1979. The

current public policy debate regarding provision of health insurance for unemployed workers, however, reflects perceptions of the magnitude of health insurance loss during the last two years, when rates of unemployment attained their highest levels since the Great Depression. Consequently, the formulation of appropriate policy requires knowledge of the number of unemployed workers who lost health insurance during a more recent period in time.

Data sets of more recent origin than the 1977 NMCES fail to provide sufficient detail regarding the pattern of both health insurance coverage and changes in employment status. As of this writing, for example, the latest available version of the Current Population Survey (March 1982) provides characteristics of unemployed workers during a given survey week and information on health insurance coverage during the prior year. This precludes a direct examination of how changes in employment status affect current health insurance coverage. Therefore, to provide estimates for a more recent year, we use NMCES data to describe the likelihood that an unemployed worker will lose private health insurance. We then simulate this likelihood for early 1982 by using characteristics of unemployed workers from the March 1982 Current Population Survey to account for differences in the nature of unemployment since 1977.¹¹ Underlying this technique is the assumption that the likelihood of a health insurance loss for an unemployed worker of given characteristics will be the same in 1982 as in 1977. This further assumes no major changes in the distribution of health insurance by industry or in the nature of eligibility requirements for employment-related insurance since 1977.

Compared to the unemployed in the 1977 NMCES survey, the unemployed in 1982 were younger, had lower real income, were in households less likely to have a working spouse, and had longer spells of unemployment. Based upon these and other characteristics of unemployment, the proportion of the unemployed who lost health insurance in 1982 is likely to be different than the 8 percent obtained for 1977. When such characteristics of the unemployed population were obtained from the March 1982 Current Population Survey and applied to our predictive model, we estimate that 13 percent of the unemployed lost private health insurance in mid-March 1982. This represents approximately 1.4 million unemployed workers at that point in time.

Conclusion

Our research has found that a relatively small proportion of unemployed workers lost health insurance in both 1977 and 1982. Analyses of 1977 data indicate that 8 percent of the unemployed, or some 520,000 workers, lost coverage, while our simulation with 1982 data suggests that 13 percent, or 1.4 million unemployed workers, experienced such a loss

in 1982. Our examination of 1977 data indicate that the majority of unemployed workers were able to retain health insurance either because their economic circumstances enabled them to do so or because they were able to obtain such insurance through an insured working spouse. Moreover, unemployed workers in 1977 did not experience reduced levels of medical care use, either in comparison with employed workers or relative to periods in which they were employed. However, barriers to care were experienced by uninsured workers regardless of their employment status.

Alternatively, our analysis suggests that significant numbers of both employed and unemployed workers lacked health insurance throughout 1977. Eleven percent of unemployed workers (some 720,000) and 9 percent of workers employed throughout 1977 (7.6 million) fell into this category. Further, when employment status and insurance status were considered, the latter emerged as a more significant determinant of the ability to secure medical care. We have assumed that there were no major changes since 1977 in the distribution of health insurance by type of employment or in the eligibility requirements for employment-related health insurance, so it is also likely that significant numbers of currently employed and unemployed workers are without any health insurance during the year. We therefore believe that the unemployed who lose health insurance represent a small part of the general problem of the inability of particular segments of the United States population to secure health insurance. Although providing health insurance for unemployed workers who do not otherwise retain coverage may not be prohibitively expensive, it will only represent a piecemeal approach to this problem and raises a serious equity issue as to why unemployed workers should be targeted for special consideration when many employed-uninsured workers may also face difficulties in obtaining medical care.

NOTES

1. Peggy O'Kane, "Health Insurance for the Unemployed," *State Health Notes*, No. 35 (Washington, D.C.: Intergovernmental Health Policy Project, George Washington University, April 1983); and Glenn Markus and Anne Stewart, "Health Benefits: Loss Due to Unemployment, Comparison of Selected Proposals," (Washington, D.C.: Congressional Research Service, Education and Public Welfare Division, 22 April 1983).
2. "House Approves Health Insurance for the Unemployed," *Washington Post*, 4 August 1982.
3. David A. Stockman, Testimony before the Committee on Finance, United States Senate, 27 April 1983.
4. Steven B. Cohen and W.D. Kalsbeek, *National Medical Care Expenditure Survey: Estimation and Sampling Variances in the Household Survey* (National Center for Health Services Research, U.S. Department of Health and Human Services, 1981).
5. James A. Lee, *Employment, Unemployment, and Health Insurance* (Cambridge, Mass.: Abt Books, 1977).

6. Alan C. Monheit, Michael M. Hagan, Marc L. Berk, and Gail R. Wilensky, "Unemployment, Health Insurance, and Medical Care Utilization" (National Center for Health Services Research, November 1983).
7. Estimates of the number of unemployed workers from NMCES data were obtained at a given point in time: an interview date in the third quarter of 1977. This procedure resembles that used by the Bureau of Labor Statistics (BLS) in its tabulation of monthly unemployment statistics. The BLS compiles such data from survey week interviews conducted each month by the Current Population Survey. During any year, the total number of workers experiencing some unemployment will exceed estimates obtained at a point in time. Unless otherwise noted, estimates of unemployment presented in this paper will reflect the number of unemployed workers at a specified point in time.
8. Duration of unemployment was measured first as the number of weeks that a survey respondent had been unemployed at the first employment interview and also as the entire length of the unemployment spell. The first method resembles that of the Bureau of Labor Statistics (BLS). See U.S. Bureau of Labor Statistics, *Handbook of Labor Statistics* (1978). Using this approach, NMCES data reveal an average of 13.8 weeks unemployed which compares favorably to the 13.1-week estimate of BLS for a comparable period. For a discussion of problems with the BLS methodology and the importance of measuring the full employment spell, see H. Kaitz, "Analyzing the Length of Spells of Unemployment," *Monthly Labor Review* 93 (November 1970): 11-20; and George A. Akerlof and Brian G.M. Main, "Unemployment Spells and Unemployment Experience," *American Economic Review* 70 (December 1980): 855-893.
9. Using data from the NMCES Health Insurance/Employer Survey (HIES), we found that about two-thirds of the 4.3 million unemployed workers with full-year private coverage residing with a privately insured working spouse were dependents in health insurance policies. Another 13.8 percent were both subscribers and dependents, so that some 80 percent were dependents at some time during the year. For a description of the HIES survey, see: Steven B. Cohen and Pamela J. Farley, *National Medical Care Expenditure Survey: Estimation and Sampling Procedures in the Insurance Surveys of the National Medical Care Expenditure Survey* (National Center for Health Services Research, U.S. Department of Health and Human Services, forthcoming).
10. Sample size precluded an examination of the use of medical care services by the unemployed who lost private coverage. In this analysis, these workers were grouped with the unemployed having part-year coverage.
11. These characteristics included age, sex, color, weeks of unemployment, household income, years of education, region and urban/rural locale, industry of last job, household structure (working spouse present, number of children less than twelve), and whether unemployment compensation was received.

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